

Message Text

SECRET

PAGE 01 BONN 14397 01 OF 02 111536Z

41

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S E C R E T SECTION 01 OF 02 BONN 14397

EXDIS

E.O. 1L652: GDS

TAGS: PFOR, GW

SUBJECT: CONVERSATION WITH CHANCELLOR SCHMIDT

SUMMARY: THE MAJOR PORTION OF MY 70-MINUTE CONVERSATION WITH CHANCELLOR SCHMIDT ON SEPTEMBER 10 WAS DEVOTED TO THE INTERNATIONAL ECONOMIC SITUATION. HE CONTINUED TO EXPRESS DEEP PERSONAL PESSIMISM ABOUT DEVELOPMENTS AND PROSPECTS. HE SEES THE WEST FACED BY A STRUCTURAL REVOLUTION IN THE WORLD ECONOMY TO WHICH OLD FORMULAE AND THEORIES NO LONGER APPLY, AND LIKEWISE SEES NO NEW APPROACHES SO FAR DEVELOPED WHICH WILL DO ANY MORE THAN SCRATCH THE SURFACE OF THE PROBLEM. HE REGARDS CURRENT FRENCH EFFORTS TO BRING MOTION INTO THE ORGANIZATION OF EUROPE AS PRIMARILY PSYCHOLOGICAL IN THEIR EFFECT. END SUMMARY

1. THE CHANCELLOR BEGAN OUR CONVERSATION BY PICKING UP WHERE WE HAD LEFT OFF THE LAST TIME WE MET, NOTING THAT HIS PESSIMISM ABOUT INTERNATIONAL ECONOMIC DEVELOPMENTS AND PROSPECTS HAD ONLY DEEPENED IN RECENT WEEKS. ITALY WAS VIRTUALLY A BANKRUPT COUNTRY AND THE UNITED

SECRET

SECRET

PAGE 02 BONN 14397 01 OF 02 111536Z

KINGDOM WAS FAST APPROACHING THAT CONDITION EVEN THOUGH

ITS LEADERS MIGHT NOT YET REALIZE THE FACT. THE WEST WAS FACING A STRUCTURAL REVOLUTION IN THE WORLD ECONOMY TO WHICH THE OLD FORMULAE AND THEORIES NO LONGER APPLIED. IN EVERY AREA THAT ONE EXAMINED, THE GAP BETWEEN REQUIREMENTS AND AVAILABILITIES SEEMED UNBRIDGEABLE. HE COULD NOT ACCEPT THE EASY LOGIC OF THOSE WHO ARGUED THAT RECYCLING WOULD INEVITABLY TAKE PLACE SIMPLY BECAUSE THE ARAB COUNTRIES COULD NOT JUST SIT ON THEIR ASSETS IN THE DESERT BUT WOULD HAVE TO INVEST THEM IN PROFITABLE ENTERPRISES ELSEWHERE.

2. HE HAD BEEN PARTICULARLY DISHEARTENED, HE ADDED, TO LEARN DURING HIS RECENT TALKS WITH GISCARD IN PARIS THAT THE FRENCH WOULD NOT BE ABLE TO JOIN THE OTHER WESTERN POWERS IN THEIR APPROACH TO THE ENERGY PROBLEM, NOT BECAUSE GISCARD DID NOT WANT TO DO SO BUT BECAUSE HE FELT INHIBITED BY CONTINUED RIGHTIST GAULLIST PRESSURES. WITHOUT SUCH A JOINT APPROACH, HE WONDERED HOW ANY PROGRESS COULD BE MADE IN BRINGING DOWN THE PRICE OF ARAB OIL.

3. THE PROSPECT AS HE SAW IT, SCHMIDT CONTINUED, WAS FOR A SELF-REINFORCING CHAIN OF ECONOMIC CAUSATION LEADING TO EUROPEAN ECONOMIC RECESSION AND PERHAPS DEPRESSION WHICH WOULD SOONER OR LATER ALSO AFFECT THE STRONGER COUNTRIES SUCH AS GERMANY. SOMEWHAT RUEFULLY, HE ADMITTED THAT HIS ADVISERS HAD BEEN URGING HIM NOT TO BE SO GLOOMY IN HIS PUBLIC STATEMENTS, AND HE SUPPOSED HE WOULD HAVE TO WATCH MORE WHAT HE SAID IN ORDER TO AVOID ADDING IMPETUS TO THE VERY PROCESS WHICH HE FEARED. REGARDLESS OF WHAT HE WOULD SAY FOR PUBLIC CONSUMPTION IN THE FUTURE, HE COULD NOT STRESS ENOUGH THE IMPORTANCE OF THE ECONOMIC SITUATION AS, IN HIS VIEW, ALSO THE OVERRIDING POLITICAL FACTOR IN OUR TIME.

4 REFERRING TO THE RECENT ARTICLE BY JAMES RESTON IN THE NEW YORK TIMES REPORTING HIS (SCHMIDT'S) VIEWS ON THE INTERNATIONAL ECONOMIC ROLE OF THE U.S., THE CHANCELLOR SAID THAT HE HAD UNFORTUNATELY NOT HAD TIME TO REVIEW THE PIECE BEFORE PUBLICATION. HAD HE KNOWN THAT

SECRET

SECRET

PAGE 03 BONN 14397 01 OF 02 111536Z

RESTON WAS SIMPLY GOING TO REPEAT HIS THOUGHTS AS THEY HAD COME OUT WITHOUT SOME DISCREET EDITING, HE WOULD HAVE EXPRESSED HIMSELF DIFFERENTLY. HOWEVER, THE VIEWS IN THE ARTICLE WERE THOSE WHICH HE WOULD HAVE PUT TO THE U.S. GOVERNMENT IN A PRIVATE MEMORANDUM IF HE WERE WRITING ONE. THERE WAS SIMPLY NO ESCAPING THE FACT, SCHMIDT EMPHASIZED, THAT THE ROLE OF THE U.S. IN THE WORLD ECONOMY WAS PREDOMINANT AND THAT NO AMERICAN ECO-

NOMIC POLICY COULD BE ADOPTED EXCEPT IN CONSCIOUSNESS OF THE FACT THAT IT WOULD INEVITABLY HAVE BROAD REPERCUSSIONS ELSEWHERE. FOR EXAMPLE, HE CONTINUED, THE

SECRET

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SECRET

PAGE 01 BONN 14397 02 OF 02 111539Z

42

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S E C R E T SECTION 02 OF 02 BONN 14397

EXDIS

PREVAILING HIGH INTEREST RATES IN THE U.S. WERE NOT ONLY HAVING THE EFFECT OF DRAWING MONEY FROM GERMANY TO THE UNITED STATES, BUT WERE ALSO LIMITING SUCH RECYCLING AS WAS TAKING PLACE ESSENTIALLY TO ARAB INVESTMENT IN THE UNITED STATES, PARTICULARLY NOW THAT THE ABSORPTIVE CAPACITY OF THE PRIVATE BANKING SYSTEM OPERATING IN THE EURO-DOLLAR MARKET SEEMED TO HAVE BEEN REACHED.

5. AS TO GERMAN INTERNAL ECONOMIC POLICY, SCHMIDT SAID THAT HE HAD PUBLICLY CONTINUED TO STRESS THE INTENTION OF HIS GOVERNMENT TO HOLD TO ITS PRESENT COURSE. UNLIKE SOME OF HIS CABINET MINISTERS, HOWEVER, HE HAD SERIOUS PERSONAL DOUBTS ABOUT WHETHER SOME DEGREE OF REFLATION WOULD NOT BECOME DESIRABLE LATER IN THE AUTUMN TO AVOID GROWING UNEMPLOYMENT. HE WAS PERSONALLY SITTING ON THE FENCE IN THIS CONTEXT. HE ADDED THAT, DESPITE CURRENT PRESS REPORTS TO THE CONTRARY, HE WAS

NOT THINKING OF ANY RELAXATION OF GERMAN CREDIT TERMS TO EASTERN EUROPE, INCLUDING THE SOVIET UNION, ALTHOUGH HE WAS GETTING MUCH ADVICE THAT THE MORE GENEROUS U.S. CREDIT TERMS NOW AVAILABLE TO THOSE COUNTRIES MADE THIS DESIRABLE.

SECRET

SECRET

PAGE 02 BONN 14397 02 OF 02 111539Z

6- TURNING TO THE FORTHCOMING EEC PREPARATORY SUMMIT MEETING IN PARIS, HE NOTED THAT HE HAD NOT ABANDONED THE DOUBTS ABOUT THE VALUE OF EUROPEAN SUMMITRY WHICH HE HAD EXPRESSED DURING OUR LAST CONVERSATION. HOWEVER, HE INTENDED TO DO NOTHING WHICH WOULD IN ANY WAY DETRACT FROM GISCARD'S PERSONAL POSITION, AND THE FRENCH PRESIDENT OBVIOUSLY WANTED TO GIVE THE IMPRESSION OF FORWARD MOVEMENT IN THE MAKING OF EUROPE. ALTHOUGH SOME SMALL INSTITUTIONAL CHANGES MIGHT BE MADE, HE REGARDED THE EXERCISE AS ESSENTIALLY PSYCHOLOGICAL IN PURPOSE. HE ADDED THAT THE ONE THING HE COULD NOT STOMACH WAS THE PRESENT FUNCTIONING OF THE COMMISSION IN BRUSSELS, AND HIS PUBLIC STATEMENTS ON THE SUBJECT REFLECTED HIS STRONG PERSONAL VIEWS. IF THERE WERE TO BE ANY PROGRESS IN DEVELOPING EUROPE UNDER CURRENT CONDITIONS IT WOULD HAVE TO BE AROUND THE COUNCIL OF MINISTERS AS CORE RATHER THAN THE COMMISSION.

COMMENT: ALTHOUGH SOMEWHAT TIRED WHEN I SAW HIM (HE HAD HAD LONG TALKS WITH MAVROS AND MME. BANDARANAIKE EARLIER IN THE DAY), SCHMIDT SEEMED IN GENERALLY GOOD PHYSICAL CONDITION AFTER HIS OCCASIONALLY INTERRUPTED VACATION IN NORTHERN GERMANY. DESPITE A CERTAIN PREDILECTION FOR HYPERBOLE, HIS ECONOMIC CONCERNS ARE GENUINE, AND I DO NOT BELIEVE THAT HE IS TALKING MERELY FOR EFFECT. HE SOMETIMES GIVES THE IMPRESSION OF THINKING THAT HE ALONE, AMONG THOSE DEALING WITH CURRENT ECONOMIC PROBLEMS, HAS A REAL GRASP OF THEIR DIFFICULTY AND INTRACTABILITY. WHEN COMMON PROGRAMS ARE DEVELOPED TO DEAL WITH THOSE PROBLEMS, WE CAN COUNT ON HIS CO-OPERATION WITHIN THE RATHER BROAD LIMITS WHICH GERMAN ECONOMIC POWER AND RESOURCES WILL PERMIT.
HILLENBRAND

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